6.1 THE PURPOSE OF ACCOUNTING

- understand & explain the difference b/w BOOK-KEEPING & ACCOUNTING.

**Book-keeping** = detailed recording of all financial transactions of a business.

**Accounting** = preparing the financial statements at regular intervals from the bookkeeping records.

- State the purpose of measuring business Profit & Loss
  - to decide whether to continue in B or close the B
  - to compare the profit/loss with previous years
  - to compare it with other B
  - to measure the performance
  - to see the return on investment
  - for legal or tax purposes
  - to plan for the future / assist decision-making
  - to see if she is generating funds for re-investment
  - to ensure that drawings do not exceed profits
explain the role of accounting in providing information for monitoring progress and decision making.

(Purpose of Accounting):
- to calculate profit & loss
- to keep a systematic record of business transactions
- to ascertain the financial position of the business
- to provide financial information to different users of this information

Users of Accounting Information:
- owners
- suppliers
- manager
- government
- employees
- lenders
- investors

When is accounting information relevant?
When it can be compared with information for other periods.